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Chairman

U.S. HOUSE OF REPRESENTATIVES

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Bernanke Affirms Utility of Stimulus in Budget Committee Testimony

Suggests Guidelines for Stimulus Consistent with Principles of Timely, Targeted, Temporary

WASHINGTON – House Budget Committee Chairman John Spratt (D-SC) today convened a hearing on the near-term economic outlook with Federal Reserve Chairman Ben Bernanke.

Remarks from Chairman Spratt

“It has become increasingly clear that our economy is slowing down, entering a slump if not a recession. The Federal Reserve has been responsive to these conditions. The Fed has eased the monetary supply and access to credit, and most forecasters expect further rate reductions will come. But monetary policy is only part of the solution.

“A compelling case is emerging for some form of fiscal stimulus on top of the monetary stimulus the Fed has been providing and will continue to supply. Congressional Democrats are committed to working in a bipartisan, bicameral way to come up with a highly effective fiscal stimulus package that will best complement the efforts of the Federal Reserve.”

“To be effective, fiscal stimulus needs to be timely, arriving during, and not after, the downturn. It needs to be targeted, directed at those most likely to spend it quickly. And it needs to be temporary; otherwise, it runs the risk of being counterproductive, of driving up structural deficits and interest rates, and undermining confidence in our commitment to fiscal discipline.”

Excerpts From Testimony of Federal Reserve Chairman Ben Bernanke

On the Utility of Stimulus:

“A number of analysts have raised the possibility that fiscal policy actions might usefully complement monetary policy in supporting economic growth over the next year or so. I agree that fiscal action could be helpful in principle, as fiscal and monetary stimulus together may provide broader support for the economy than monetary policy actions alone.”

On Timely Stimulus:

“To be useful, a fiscal stimulus package should be implemented quickly and structured so that its effects on aggregate spending are felt as much as possible within the next twelve months or so. Stimulus that comes too late will not help support economic activity in the near term, and it could be actively destabilizing if it comes at a time when growth is already improving.”

On Targeted Stimulus:

“Any fiscal package should also be efficient, in the sense of maximizing the amount of near-term stimulus per dollar of increased federal expenditure or lost revenue.”

On Temporary Stimulus:

“Finally, any program should be explicitly temporary, both to avoid unwanted stimulus beyond the near-term horizon and, importantly, to preclude an increase in the federal government’s structural budget deficit.”

“As I have discussed on other occasions, the nation faces daunting long-run budget challenges associated with an aging population, rising health-care costs, and other factors. A fiscal program that increased the structural budget deficit would only make confronting those challenges more difficult.”

In response to specific questions regarding the advisability of extending the 2001 and 2003 Bush tax cuts, Chairman Bernanke indicated that it would be more effective to immediately and directly put cash in the hands of households that would spend it in the near term. He added that any permanent tax cuts that are deficit financed could have a counterproductive effect on the U.S. economy in the short run as well as the long run.